

allowed to issue currency.

5) Why do we need to expand formal sources of credit in India?

Ans - The reasons for expanding formal sources of credit in India are -

(i) High cost of borrowing leads to a major share of earnings going into payment of interest on the loan. So formal sources of credit is needed.

A (ii) Sometimes the higher interest rate leads to the requirement to pay more than the earnings, thus falling into a debt-trap.

(iii) Borrowers falling into debt-traps discourage more people from borrowing which ultimately reduces development of country.

(iv) It leads to ~~more~~ lending to more borrowers will lead to higher incomes and many people could then borrow cheaply for a variety of needs like growing crops, set up business or small-scale industries.

6) What is the basic idea behind the SHG's for the poor? Explain

Ans → They can get timely loans for a variety of purposes at a reasonable interest rate in the name of the SHG of which they are members. The SHG's are thus the building blocks of organisation of the rural poor.

7) What are the reasons why the banks might not be willing to lend to certain borrowers?

Ans - A number of borrowers have no collateral as security against loans, particularly small.

farmers and poor people. A collateral is an asset that the borrower owns and keeps as a guarantee to the lender until the loan is repaid.

8) In what ways does the RBI supervise the functioning of banks? why is this necessary?

Ans - The RBI supervises the functioning of banks as follows -

(i) The RBI checks that the banks actually maintain a minimum cash balance out of the deposits they receive.

(ii) The RBI ensures that the banks give loans not just to big businesses and traders, but also to small cultivators and borrowers.

→ This supervision is necessary to ensure that small businesses also grow. This monitoring

also ensure that banks do not loan more money than they are supposed to, as such as action as create a crisis situation.

9) Analyse the role of credit for development.

Ans:

→ It provides funds to grow entrepreneurs across the country.

→ It provides cultivators for betterment of agricultural practices.

→ When everyone leads a good life then development takes place.

10) Manav needs a loan to set-up a small business. On what basis will Manav decide whether to borrow from the bank or the moneylender? Discuss.

Ans- Manav will decide wheater to borrow from a bank or money lender on the basis of the following loans terms

(i) The collateral and documentation required, which he should be able to make available.

(ii) The rate of interest to be charged from him.

(iii) The mode of repayment, its periodicity, in cash etc.

(iv) The penalty in case of default in repayment.